



CENTRAL BANK OF CYPRUS

EUROSYSTEM

JULY 2024
BANK LENDING SURVEY
Results for Cyprus

Nicosia - Cyprus

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1. Overview

The July 2024 Bank Lending Survey (BLS)¹ records, among other things, the changes in credit standards and loan demand that occurred in 2024Q2 compared with 2024Q1 in Cyprus, as well as the changes that are expected to occur in 2024Q3 compared with 2024Q2. It should be emphasised that the results of the Survey reflect the perceptions and expectations of the participating banks and do not, in any way, reflect the views or expectations of the Central Bank of Cyprus (CBC) (see Notes).

Summary of BLS results - July 2024	Cyprus	
	2024Q2	2024Q3 (expectations)
Supply of loans		
Credit standards for loans		
Enterprises	Tightening	Unchanged
Households		
- Housing loans	Unchanged	Unchanged
- Consumer credit and other lending	Unchanged	Unchanged
Overall terms and conditions for loans		
Enterprises	Unchanged	*
Households		
- Housing loans	Easing	*
- Consumer credit and other lending	Unchanged	*
Demand for loans		
Enterprises	Unchanged	Unchanged
Households		
- Housing loans	Decrease	Unchanged
- Consumer credit and other lending	Decrease	Decrease

* The survey does not include questions on expected changes in loan terms and conditions.

Source: CBC

¹ - The July 2024 BLS was conducted in the period 10 - 25 June 2024. The statistical analysis for Cyprus uses the diffusion index. More information on the methodology of the Survey can be found [here](#).

- In those cases where no line or bar is evident in the charts of this report, the diffusion index is zero for the respective quarter. Either this implies that there was no change compared with the previous quarter or that the answers of the participating banks offset one another.

- The BLS results for the euro area are available [here](#).

On the *loan supply* side, **credit standards² for loans to enterprises tightened further in 2024Q2** compared to the previous quarter due to banks' reduced risk tolerance, as recorded in the Survey. In contrast, **credit standards for loans to households, both for housing loans as well as for consumer credit and other lending, remained unchanged** in 2024Q2 compared to the previous quarter. All factors affecting credit standards for loans to households had a neutral impact, during the quarter under review.

As regards the overall terms and conditions on new lending, the Survey results seem to partially reflect the direction of monetary policy during the reference period. **In 2024Q2, the overall terms and conditions on new loans or credit lines³ to enterprises remained unchanged**, after seven consecutive quarters of tightening. According to the Survey, these remained stable overall, although lower lending rates for new business loans and a narrowing of margins on average new business loans were reported, and despite the reported increased competition from other banks and reduced risk perceptions related to the general economic situation and outlook. Regarding households, **the overall terms and conditions on new housing loans eased** compared to the previous quarter, for the first time since 2018Q1, due to competitive pressures. Specifically, a net decrease was reported in lending rates for new housing loans and a net narrowing of banks' margins on average new housing loans. Conversely, **the overall terms and conditions on new consumer credit and other lending to households remained unchanged** in 2024Q2, although lower lending rates were reported for these loans.

On the *loan demand* side, **net demand for loans by enterprises, remained unchanged** in 2024Q2 compared to the previous quarter, **while net loan demand by households, both for housing loans and consumer credit and other lending, declined further**. As for demand for business loans, the negative impact of the general level of interest rates and the reduced financing needs for mergers/acquisitions and corporate restructurings was offset, according to the Survey, by an increase in enterprises' financing needs for fixed investments as well as for inventories and working capital. Regarding households, banks attributed the net decrease in demand for housing loans to the elevated level of interest rates and low consumer confidence. Similarly, the decline in net demand for consumer credit and other lending is also attributed to higher interest rates and low consumer confidence, as well as to lower spending on durable consumer goods.

According to *banks' expectations* **for 2024Q3, credit standards for loans to both enterprises and households are expected to remain unchanged** compared to the previous quarter. At the same time, **net demand for loans by enterprises and for housing loans by households is expected to remain stable**, while **a decrease is anticipated in households' net demand for consumer credit and other lending**.

² Credit standards refer to the internal guidelines or loan approval criteria of a bank. Both new loans and loan refinancing, i.e. a prolongation of a loan or a higher loan amount, are considered. Credit standards are established prior to the actual loan negotiation on the terms and conditions and the actual loan approval/rejection decision. They define the types of loan a bank considers desirable and undesirable, the designated sectoral or geographic priorities, the collateral deemed acceptable or unacceptable, etc. Credit standards specify the required borrower characteristics under which a loan can be obtained.

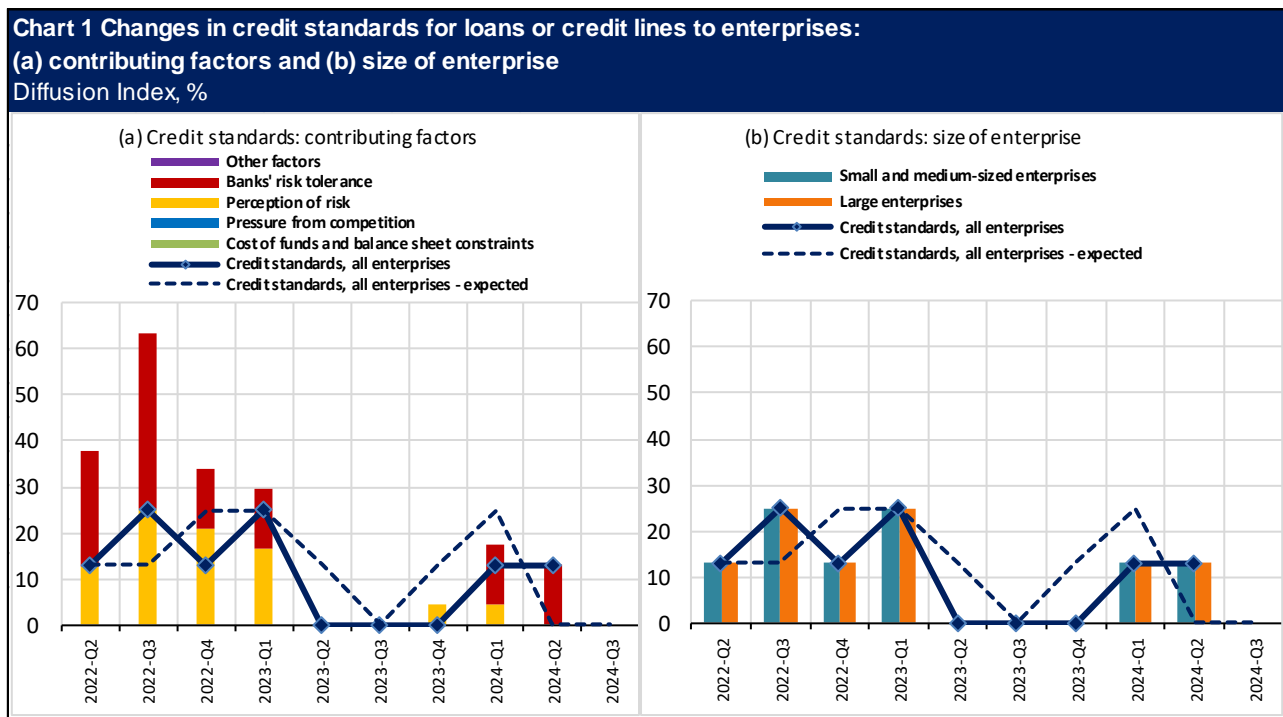
³ Credit terms and conditions refer to the conditions of a loan that a bank is willing to grant, i.e. to the terms and conditions of the (new or refinanced) loan actually approved, as laid down in the loan contract agreed between the bank (the lender) and the borrower. Credit terms and conditions depend on the borrower's characteristics and may change in parallel with credit standards or independently of them.

2. Loan Supply

2.1. Credit standards for loans

2.1.1. Credit standards for loans or credit lines to enterprises⁴

Credit standards for loans to enterprises in Cyprus tightened in 2024Q2, a development contrary to the expectations for unchanged standards expressed by banks in the previous quarter's Survey. According to the Survey, the tighter credit standards for business loans were driven by banks' lower risk tolerance (**Chart 1(a)**). Credit standards tightened for loans to both small and medium-sized enterprises (SMEs) and to large enterprises (**Chart 1(b)**).



Notes:

Concerning the direction of changes in the credit standards, a **positive value** indicates a tightening of credit standards and a contribution by the factors to this direction, while a **negative value** indicates an easing of credit standards and a contribution by the factors to this direction.

"Cost of funds and balance sheet constraints" as unweighted average of banks' "Capital and cost related to capital position", "Access to market financing" and "Liquidity position".

"Pressure from competition" as unweighted average of "Competition from other banks", "Competition from non-banks" and "Competition from market financing".

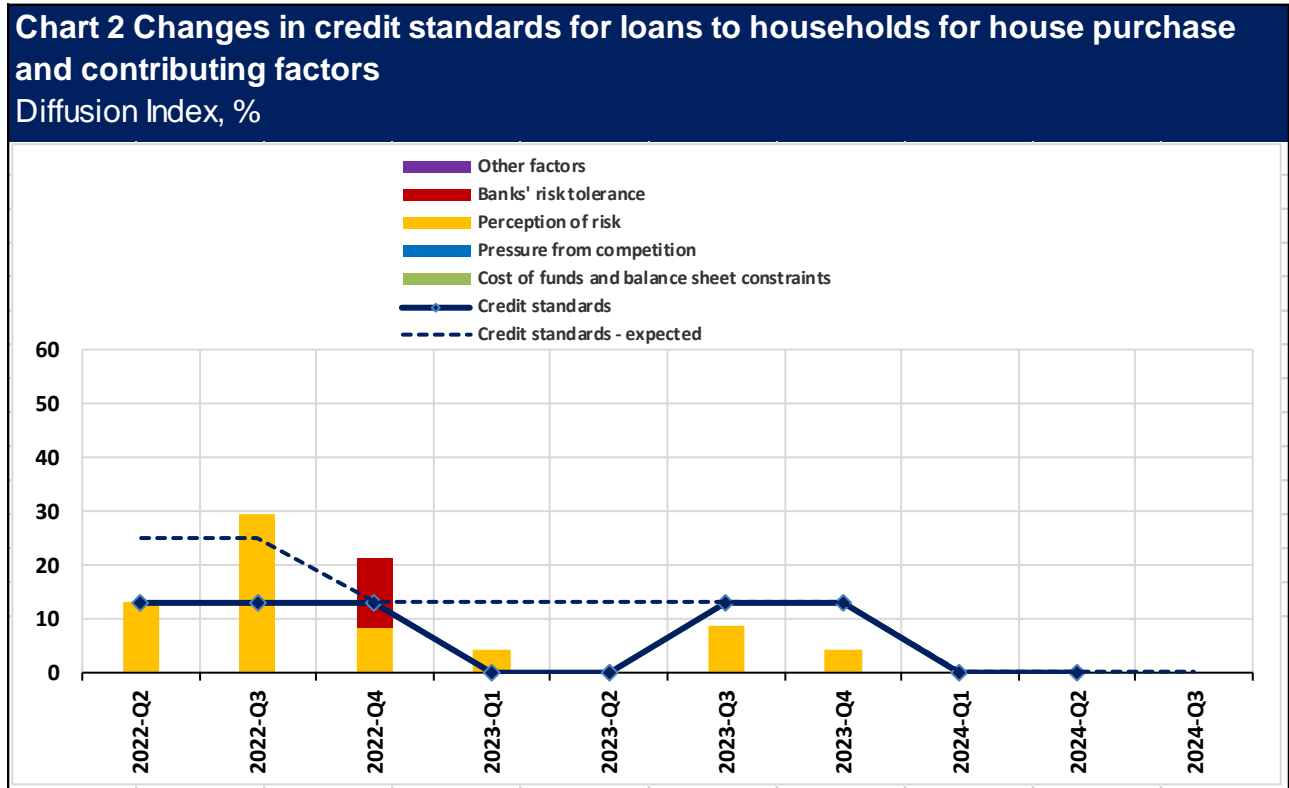
"Perception of risk" as unweighted average of "General economic situation and outlook", "Industry or firm-specific situation and outlook/borrower's creditworthiness" and "Risk on collateral demanded".

"Other factors" refer to further factors which were mentioned by participating banks as having contributed to changes in credit standards.

⁴ The term "enterprises" refers to non-financial corporations.

2.1.2. Credit standards for loans to households for house purchase

In 2024Q2, **credit standards for housing loans to households remained unchanged** compared to the previous quarter, in line with banks' expectations expressed in the April 2024 Survey. As in the previous quarter, all factors affecting credit standards for housing loans had a neutral impact (**Chart 2**).



Notes:

Concerning the direction of changes in the credit standards, a **positive value** indicates a tightening of credit standards and a contribution by the factors to this direction, while a **negative value** indicates an easing of credit standards and a contribution by the factors to this direction.

"Cost of funds and balance sheet constraints" as unweighted average of banks' "Capital and cost related to capital position", "Access to market financing" and "Liquidity position" (detailed sub-factors were introduced in April 2022).

"Pressure from competition" as unweighted average of "Competition from other banks" and "Competition from non-banks".

"Perception of risk" as unweighted average of "General economic situation and outlook", "Housing market prospects, including expected house price developments" and "Borrower's creditworthiness".

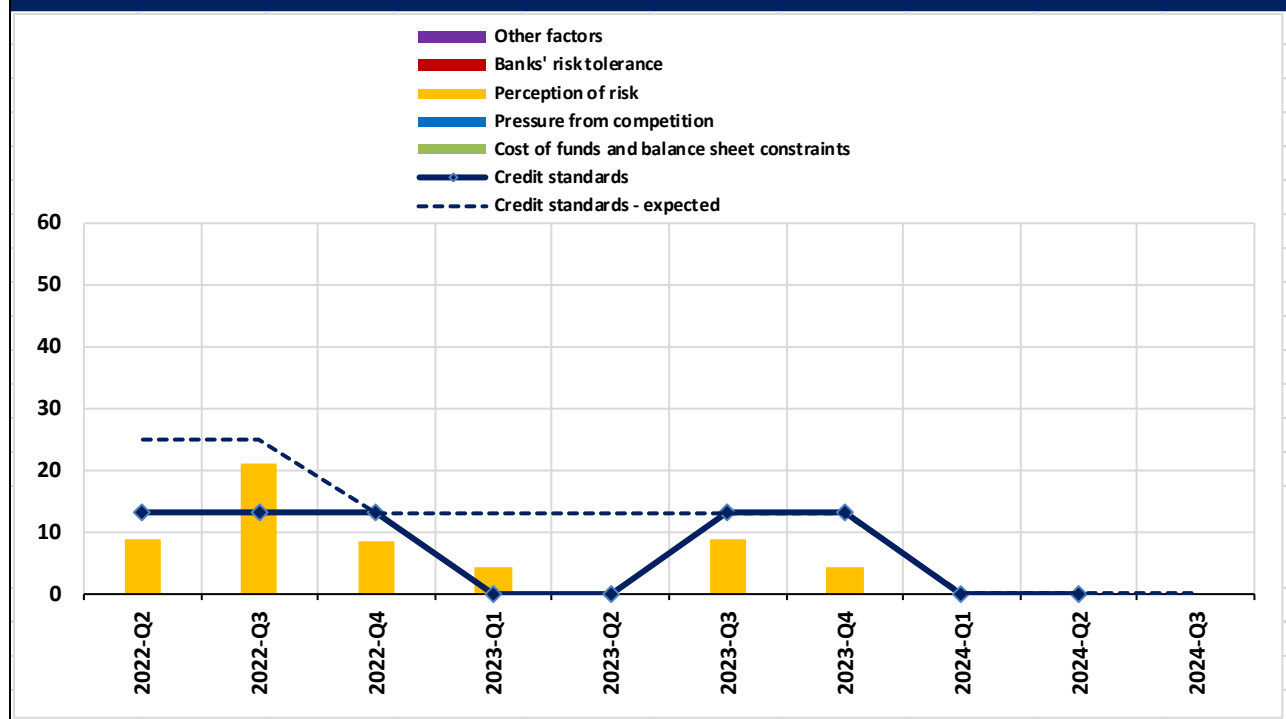
"Other factors" refer to further factors which were mentioned by participating banks as having contributed to changes in credit standards.

2.1.3. Credit standards for consumer credit and other lending to households

Credit standards for consumer credit and other lending to households remained unchanged in 2024Q2, for the second consecutive quarter, in line with banks' expectations. As with housing loans, all factors affecting the credit standards for this category of loans to households also continued to have a neutral impact (Chart 3).

Chart 3 Changes in credit standards for consumer credit and other lending to households and contributing factors

Diffusion Index, %



Notes:

Concerning the direction of changes in the credit standards, a **positive value** indicates a tightening of credit standards and a contribution by the factors to this direction, while a **negative value** indicates an easing of credit standards and a contribution by the factors to this direction.

"**Cost of funds and balance sheet constraints**" as unweighted average of banks' "Capital and cost related to capital position", "Access to market financing" and "Liquidity position" (detailed sub-factors were introduced in April 2022).

"**Pressure from competition**" as unweighted average of "Competition from other banks" and "Competition from non-banks".

"**Perception of risk**" as unweighted average of "General economic situation and outlook", "Creditworthiness of consumers" and "Risk on the collateral demanded".

"**Other factors**" refer to further factors which were mentioned by participating banks as having contributed to changes in credit standards.

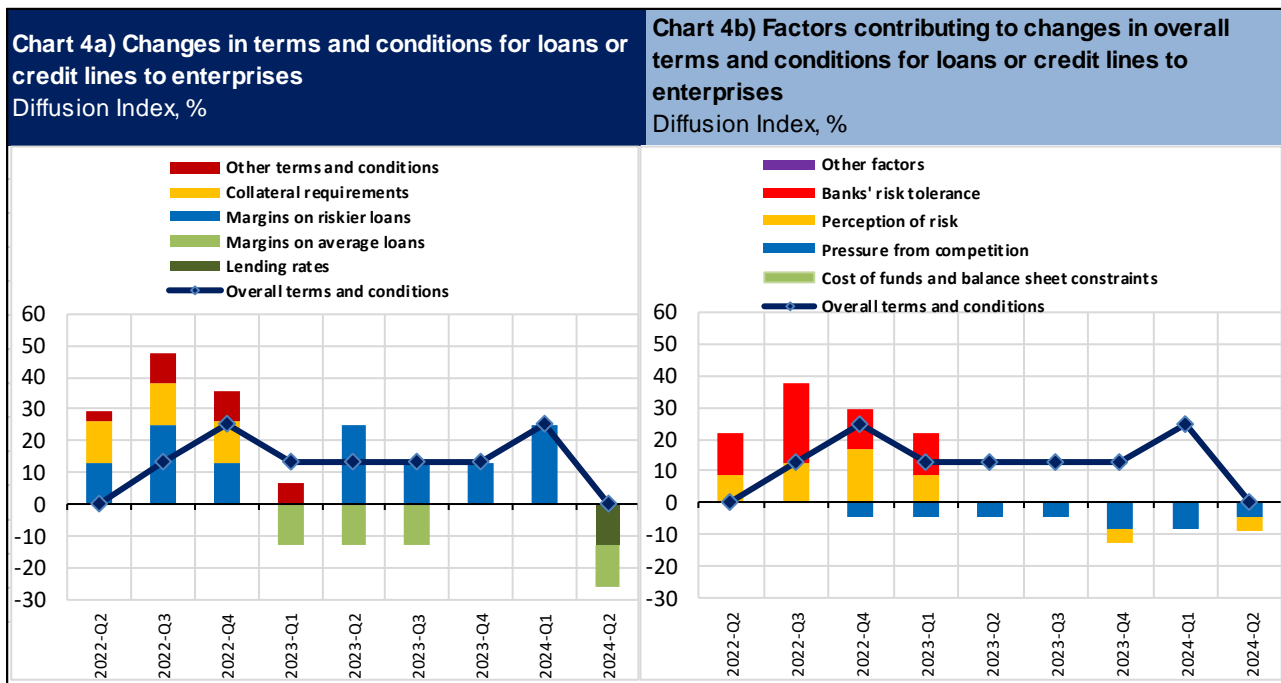
2.1.4. Expectations for the next quarter

According to banks' expectations for 2024Q3, credit standards in Cyprus are expected to remain unchanged compared to the previous quarter, for loans to enterprises as well as for both categories of loans to households (Charts 1-3).

2.2. Overall terms and conditions on loans

2.2.1. Overall terms and conditions on loans or credit lines to enterprises

In 2024Q2, **the overall terms and conditions on new business loans** (i.e., the banks' actual terms and conditions agreed upon in the loan contract) **remained unchanged** after seven consecutive quarters of tightening. According to the Survey, these remained unchanged overall, although a decrease in new business loans' lending rates and a narrowing of margins on average new business loans were reported (**Chart 4(a)**), and despite increased competition from other banks and reduced risk perceptions related to the general economic situation and outlook (**Chart 4(b)**).



Notes:

Concerning the direction of changes in terms and conditions on loans or credit lines, a **positive value** indicates a tightening of terms and conditions and a contribution by the factors to this direction, while a **negative value** indicates an easing of terms and conditions and a contribution by the factors to this direction.

4a) **«Margins»** are defined as the spread over a relevant market reference rate (wider spread = tightened, narrower spread = eased).

"Other terms and conditions" as unweighted average of "Non-interest rate charges", "Size of the loan or credit line", "Loan covenants" and "Maturity".

"Lending rates" was introduced in April 2024.

4b) **"Cost of funds and balance sheet constraints"** as unweighted average of "Capital and cost related to capital position", "Access to market financing" and "Liquidity position".

"Pressure from competition" as unweighted average of "Competition from other banks", "Competition from non-banks" and "Competition from market financing".

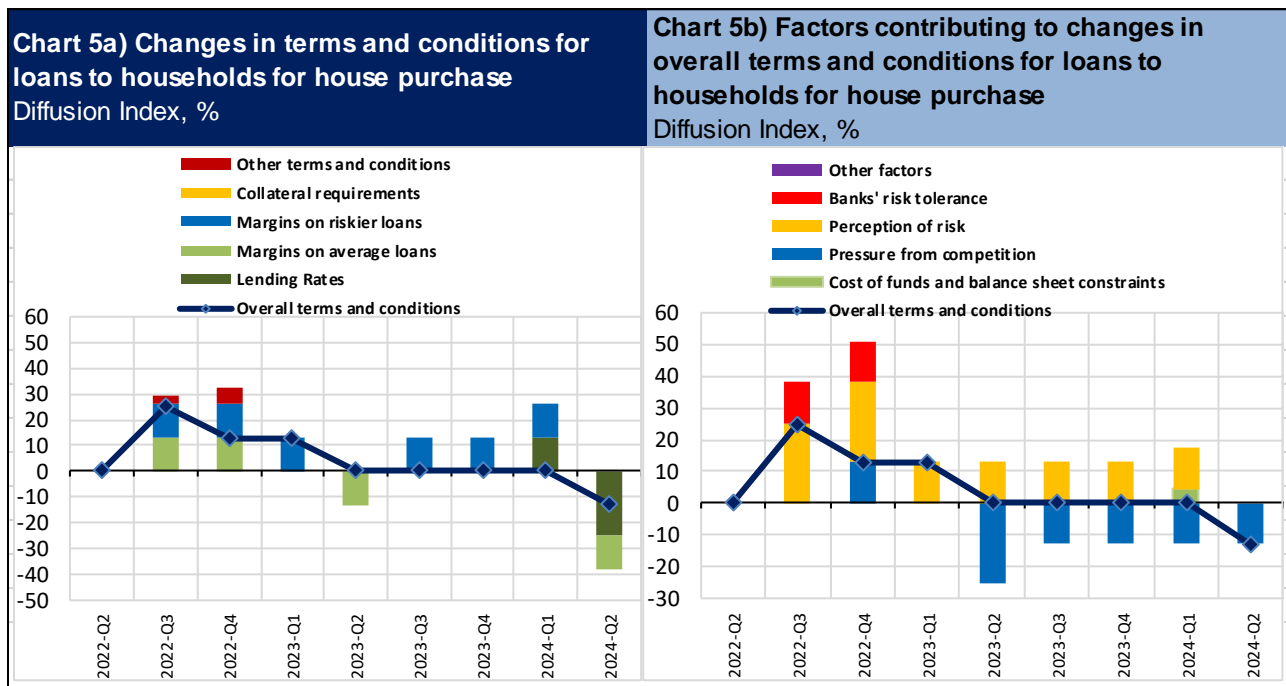
"Perception of risk" as unweighted average of "General economic situation and outlook", "Industry or firm-specific situation and outlook/borrower's creditworthiness" and "Risk on collateral demanded".

"Other factors" refer to further factors which were mentioned by participating banks as having contributed to changes in terms and conditions.

2.2.2. Overall terms and conditions on loans to households for house purchase

The overall terms and conditions on new housing loans in 2024Q2 eased compared to the previous quarter, for the first time since 2018Q1. Specifically, lower lending rates on new housing loans and a narrowing of banks' loan margins on average new housing loans were reported (Chart 5(a)).

According to the Survey, the easing of the overall terms and conditions for new housing loans was driven by the continued pressure from competition. It is noted that the impact of banks' risk perceptions was neutral after seven consecutive quarters of heightened risk (Chart 5(b)).



Notes:

Concerning the direction of changes in terms and conditions on loans, a **positive value** indicates a tightening of terms and conditions and a contribution by the factors to this direction, while a **negative value** indicates an easing of terms and conditions and a contribution by the factors to this direction.

5a) «**Margins**» are defined as the spread over a relevant market reference rate (wider spread = tightened, narrower spread = eased).

"**Other terms and conditions**" as unweighted average of "Loan-to-value ratio", "Other loan size limits", "Maturity" and "Non-interest rate charges".

"Lending rates" was introduced in April 2024.

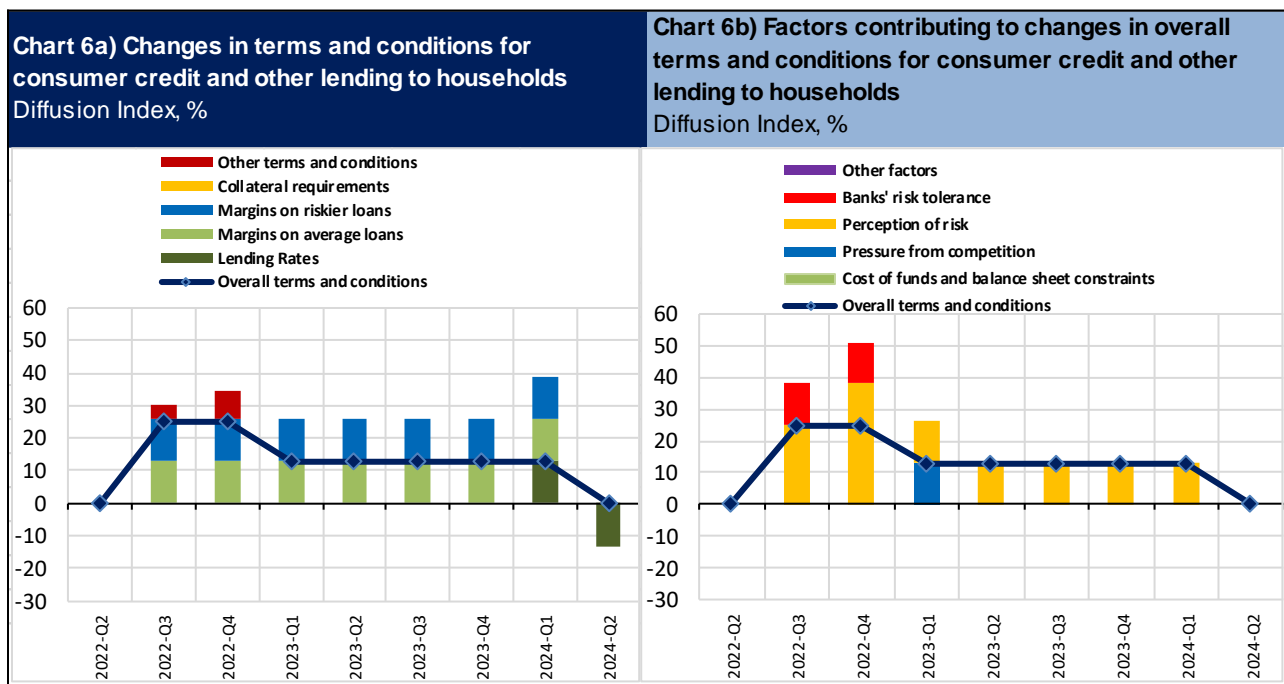
5b) "**Cost of funds and balance sheet constraints**" as unweighted average of "Capital and cost related to capital position", "Access to market financing" and "Liquidity position". Detailed sub-factors were introduced in April 2024.

"**Other factors**" refer to further factors which were reported by participating banks as having contributed to changes in the terms and conditions for these loans.

2.2.3. Overall terms and conditions on consumer credit and other lending to households

After seven consecutive quarters of tightening, **the overall terms and conditions on consumer credit and other lending to households remained unchanged** in 2024Q2, although a decrease in lending rates was reported (**Chart 6(a)**).

According to the Survey, all factors affecting the overall terms and conditions on these loans to households had a neutral impact in the quarter under review. As with housing loans, the impact of banks' risk perceptions on consumer credit and other lending to households in 2024Q2 was neutral following seven consecutive quarters of increased risk perceptions (**Chart 6(b)**).



Notes:

Concerning the direction of changes in terms and conditions on loans, a **positive value** indicates a tightening of terms and conditions and a contribution by the factors to this direction, while a **negative value** indicates an easing of terms and conditions and a contribution by the factors to this direction.

6a) **«Margins»** are defined as the spread over a relevant market reference rate (wider spread = tightened, narrower spread = eased).

"Other terms and conditions" as unweighted average of "Size of loan", "Maturity", and "Non-interest rate charges". "Lending rates" was introduced in April 2024.

6b) **"Cost of funds and balance sheet constraints"** as unweighted average of "Capital and cost related to capital position", "Access to market financing" and "Liquidity position". Detailed sub-factors were introduced in April 2024.

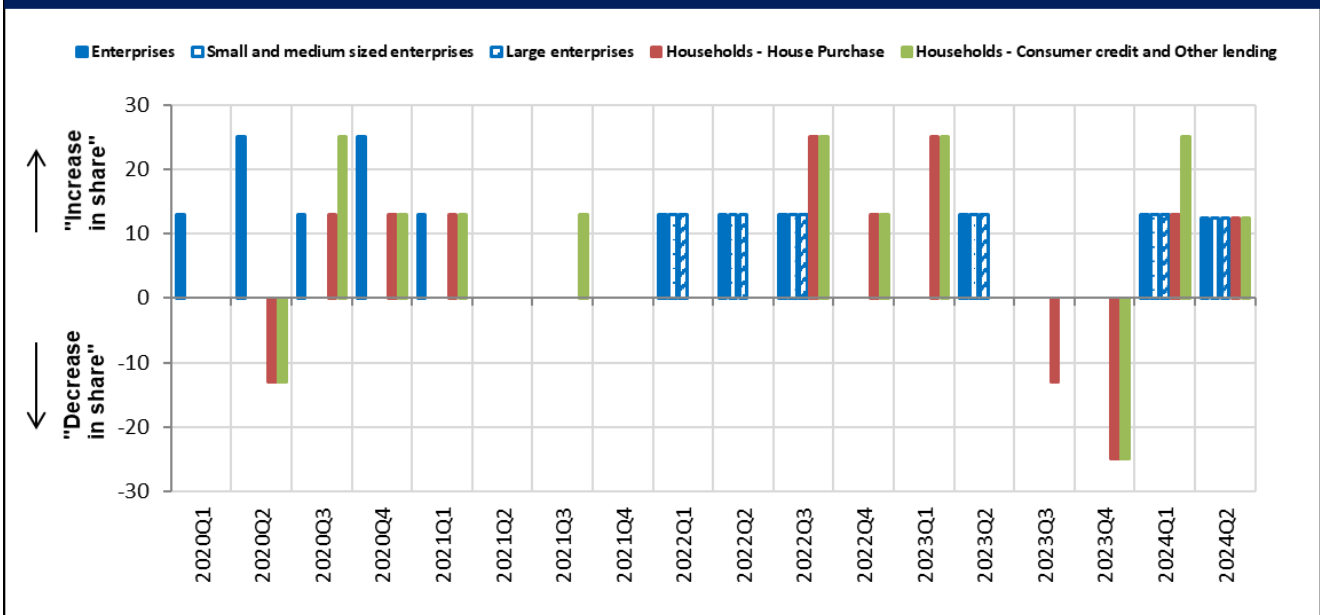
"Other factors" refer to further factors which were reported by participating banks as having contributed to changes in the terms and conditions for these loans.

2.3. Rejected applications

The share of rejected applications (both formal and informal) relative to the volume of all loan applications from enterprises increased further in 2024Q2, for both SMEs and large enterprises (**Chart 7**). This development aligns with the ongoing tightening of credit standards for loans to enterprises.

At the same time, in 2024Q2, the share of rejected loan applications from households also increased further, for both housing loans and for consumer credit and other lending, even though credit standards for both categories of loans in 2024Q2 remained unchanged (**Chart 7**).

CHART 7 Share of rejected applications (formal and informal) relative to the total volume of loan applications in that lending category
Diffusion index, %



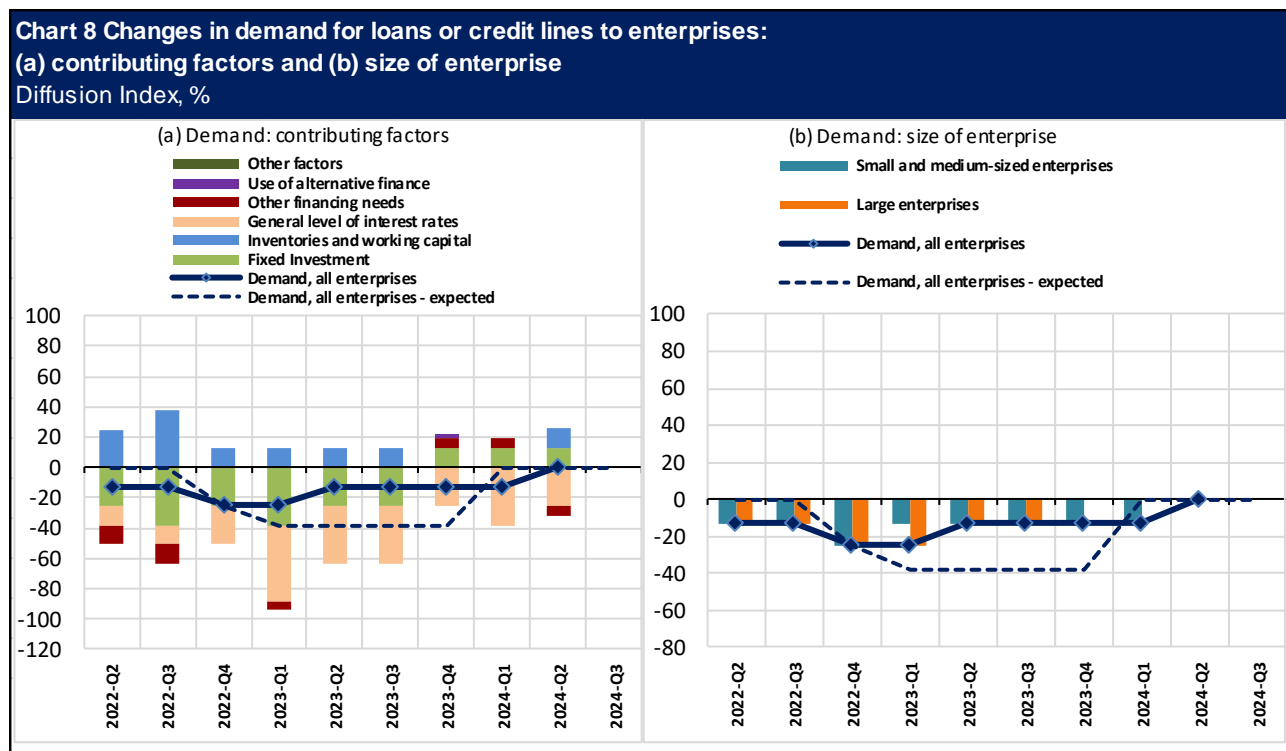
Notes:

Share of rejected loan applications relative to the volume of all loan applications in that loan category.
The breakdown by firm size was introduced in April 2022.

3. Loan demand

3.1. Demand for loans or credit lines to enterprises

In 2024Q2, **net demand for loans by enterprises remained, at the aggregate level, unchanged**, compared to the previous quarter, a development consistent with banks' expectations as expressed in the previous quarter's Survey. This is the first time since 2022Q1 that net demand for business loans did not decrease but remained stable. Specifically, in 2024Q2, the negative impact of the general level of interest rates and reduced financing needs for mergers/acquisitions and corporate restructuring (part of "Other financing needs") were offset by an increase in businesses' financing needs for fixed investments as well as for inventories and working capital (**Chart 8(a)**). According to the Survey, the overall net demand for business loans in 2024Q2 remained unchanged by both SMEs and large enterprises (**Chart 8(b)**).



Notes:

Concerning the direction of changes in loan demand, a **positive value** indicates an increase in demand and a contribution by the factors to this direction, while a **negative value** indicates a decrease in demand and a contribution by the factors to this direction.

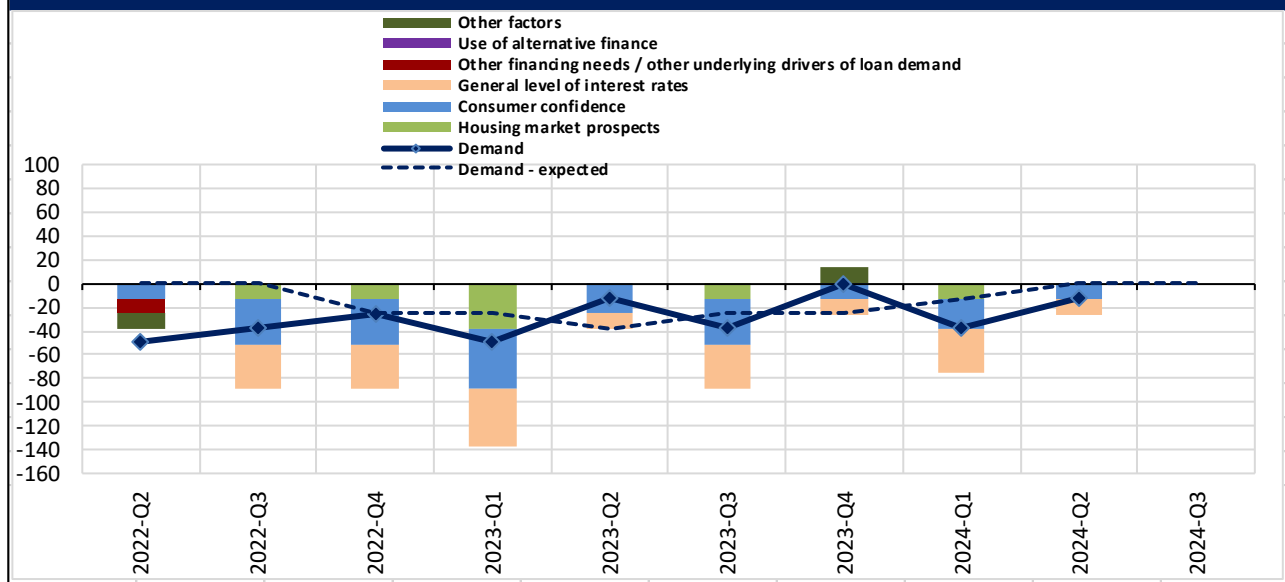
"Other financing needs" as unweighted average of "Mergers/acquisitions and corporate restructuring" and "Debt refinancing/restructuring and renegotiation".

"Use of alternative finance" as unweighted average of "Internal financing", "Loans from other banks", "Loans from non-banks", "Issuance/redemption of debt securities" and "Issuance/redemption of equity".

3.2. Demand for loans to households for house purchase

Net demand for housing loans by households continued to decline in 2024Q2, although to a lesser extent than in the previous quarter, despite expectations for unchanged demand expressed in the April 2024 Survey. According to the Survey, the decrease in housing loan demand in 2024Q2 is attributed to the general level of interest rates and low consumer confidence (**Chart 9**).

Chart 9 Changes in demand for loans to households for house purchase and contributing factors
Diffusion Index, %



Notes:

Concerning the direction of changes in loan demand, a **positive value** indicates an increase in demand and a contribution by the factors to this direction, while a **negative value** indicates a decrease in demand and a contribution by the factors to this direction.

"**Other financing needs / other underlying drivers of loan demand**" as unweighted average of "Debt refinancing/restructuring and renegotiation" and "Regulatory and fiscal regime of housing markets".

"**Use of alternative finance**" as unweighted average of "Internal financing out of savings/down payment", "Loans from other banks" and "Other sources of external finance".

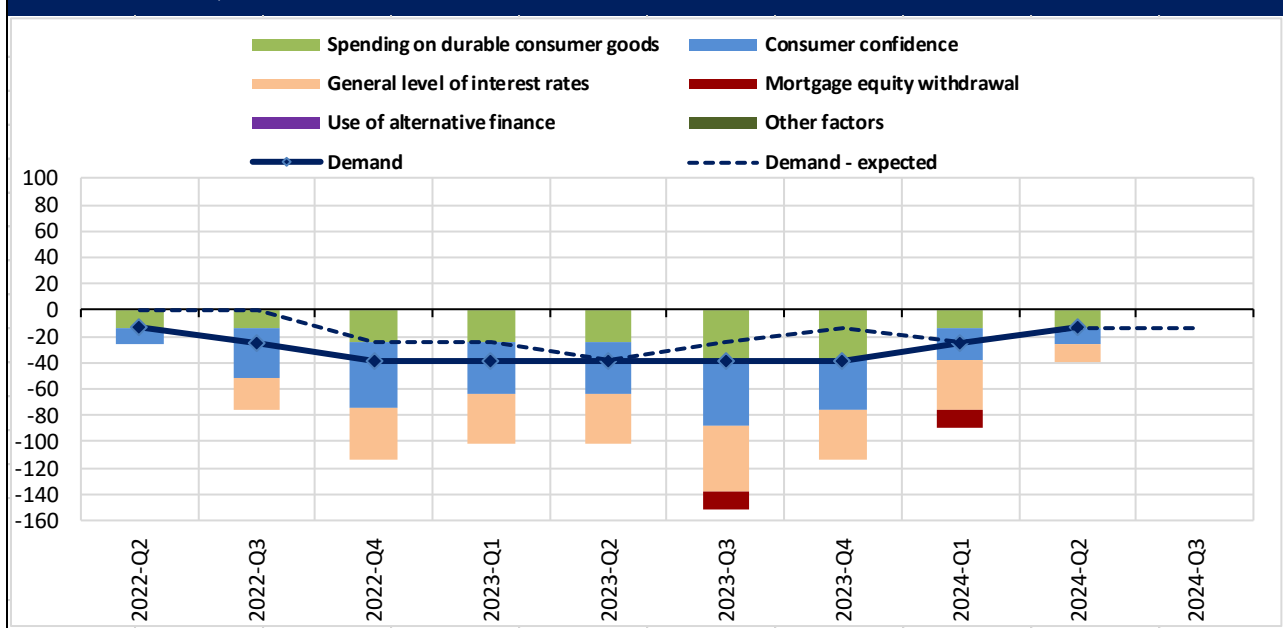
3.3. Demand for consumer credit and other lending to households

In 2024Q2, **net demand for consumer credit and other lending by households continued to decrease**, in line with the expectations expressed in the previous quarter's Survey. However, it is noted that the net decrease was smaller compared to previous quarters.

According to the Survey, the level of interest rates, low consumer confidence, and reduced spending on durable consumer goods continued to negatively affect demand, while the rest of the factors remained unchanged (**Chart 10**).

Chart 10 Changes in demand for consumer credit and other lending to households and contributing factors

Diffusion Index, %



Notes:

Concerning the direction of changes in loan demand, a **positive value** indicates an increase in demand and a contribution by the factors to this direction, while a **negative value** indicates a decrease in demand and a contribution by the factors to this direction.

"**Use of alternative finance**" as unweighted average of "Internal finance out of savings", "Loans from other banks" and "Other sources of external finance".

"**Mortgage equity withdrawal**" denotes "Consumption expenditure financed through real-estate guaranteed loans".

3.4. Expectations for the next quarter

According to participating banks' expectations for 2024Q3, net demand for loans by enterprises is expected to remain unchanged. At the same time, net demand for housing loans by households is also expected to remain stable, while net demand for consumer credit and other lending by households is expected to decrease further (**Charts 8-10**).

4. Notes

The Bank Lending Survey is a qualitative survey for the assessment of credit conditions in the euro area and its main objective is to enhance the understanding of bank lending behavior. The Survey questionnaire is addressed to senior loan officers in a representative sample of euro area banks and covers a broad area of relevant subjects regarding credit to enterprises and households. For example, it includes questions concerning credit standards as applied to the approval of loans, the terms and conditions of new loans, as well as questions concerning the evaluation by banks of factors affecting demand. More information on the methodology of the Survey can be found [here](#).

In order to enhance the information content of the Survey, a revised BLS questionnaire and compilation guide were introduced in April 2015. Since then, the questionnaire continues to be enriched at times, to include all relevant information to aid the monetary policy decision-making process of the Governing Council of the European Central Bank. In this context, specific questions of special interest may be added in order to investigate current economic issues. However, to ensure the anonymity of participating banks, these results are not published in this report.

The results of the July 2024 Bank Lending Survey relate to changes in 2024Q2 compared with the previous quarter and to changes expected in 2024Q3 compared with 2024Q2 regarding credit standards, terms and conditions, and demand for loans to/by enterprises and households. The results of the Survey for Cyprus are not weighted by the market share of each participating bank, thus the answers of all participants are given the same weight. The Survey covers around 85% of the total market for outstanding loans in Cyprus granted to euro area enterprises and households. The diffusion index is used in the analysis. It should be noted that a diffusion index value equal to zero may imply that either there was no change compared with the previous quarter or that the answers of the participating banks offset one another.

The results of the Survey relate to answers provided by the participating banks and represent their own assessment of the domestic financing market. The results do not in any way reflect the perceptions, expectations or evaluations of the Central Bank of Cyprus.